

THE STRATEGIC ANALYSIS IN THE MODERN MANAGEMENT OF THE COMPANY

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Abstract

The present study addresses the strategic analysis within the modern management of a company. At first we presented the principles of the strategic analysis and then we exposed its role and characteristics. In the end we compared it with other types of analyses.

The present paper purpose is to present the role and the importance of the diagnosis analysis. At first, we exposed the principles of the diagnosis analysis. Secondly, we separated the financial diagnosis generally speaking and the diagnosis analysis of the companies in difficult situations. Then we presented the elements involved in determining a deeper diagnosis, as being: the products, the clients, the employed, the production process, the rivalry and the suppliers.

Key-words: *strategic analysis, modern management, marketing, diagnosis, company, financial diagnosis*

JEL classification: O₁₂

1. Introduction

The word “strategic” is used in a broad sense in order to describe the manner the decisional process transforms the information into action; it can also be found in the specific literature as “rule for decision”.

The strategy is defined as „the assembly of the decisions and actions for the means choosing and necessary resources assigning for realizing an objective”. To say it in other words, the strategy represents the choosing, depending on the rivalry and the future environment, of the domains the company will engage itself and of the intensity of the engagement. So, it reflects the way the company invests its resources, in order to take advantages, increase or stabilize a rivalry situation, depending on the frequent changes of the environment.

The strategic elements of the strategy, as they were presented by the Harvard Business School are the following:

- the environment analysis;
- the studying of the strong and weak points;
- the delimitation of the possible actions, after the confrontation of the competences with the environment;
- the comparison of the possible actions with the general objectives.

2. Literature review

Michael E. Porter (1990, p. 78), a great specialist in the field of the company strategy, considers the basic objectives of it are: the economic growth and the surviving.

In order to reach these objectives, the company must consolidate its market position so that be less vulnerable against its straight opponents, against the clients, the suppliers and the substitute products pressure. Thus it is necessary for it to assure a technologic leadership, to differentiate the products, to integrate upstream and downstream, to consolidate the relations with the favourite clients. The same author considers a good strategy consists in adapting the company to its proper situation and obtaining a good profitableness.

In a concrete way, the strategy of a company comprises an assembly of determined rules, with the purpose of realizing the proposed objectives, which must be formed on the hierarchy system, quantified, realistic and especially coherent.

The process of the strategic analysis has three stages:

- the diagnostic of the current situation;
- the analysis of the new opportunities resulted from the first stage;
- the analysis of the used procedures in order to realize the opportunities.

During the displaying of the strategic analysis, one can take into account that every situation implies a financial effort, which cannot be neglected; the ignoring of this fundamental connection among the economic objectives and their financing resources can lead to wrong decisions, with major repercussions on the company situation. The strategic decisions depend on the cost, the duration, the abundance or the penury of the financing. Thus, the portfolio of activities of a company must be balanced so that to assure its co financing; one can keep in mind that some activities generate liquidities, but others consume them. The methods of strategic analysis are conceived, by observing this principle, that of balancing the portfolio of activities, in order to assure the co financing.

3. Theoretical background

BCG Method, elaborated by Boston Consulting Group is used to balance the portfolio of activities, depending on the market share and the rate of the economic growth. The method of Boston Consulting Group integrates two dimensions: finance and marketing; it is used for forecasting the products evolution and for the analysis of the report between the maximum increasing rate and the increasing of the products market share.

McKinsey method is conceived on the same principle, that of the company performance measure with the help of the cash-flow¹ and it is used in the analysis of the strategic activity domains named DAS².

¹ The term cash-flow represents, in the vision of Ion Stancu, *Gestiunea financiara a agentilor economici*, Editura Economica, București, 1994, the increase of the net treasury, during the accounting exercise, otherwise the net monetary flux at the exercise: $CF = TN_1 - TN_0$, where TN represents the net treasury.

² DAS represents a strategic activity field, formed of a group of products of a company, characterized by the same technology, the same markets and the same opponents.

The PIMS analyzing method (Profit Impact of Marketing Strategy) offers answers to the following questions:

Which are the profitableness and the cash flow for a given activity, in specific market conditions and using a certain strategy?

How the investments profitableness and the cash flow can be affected, as a consequence of the strategic changes?

Which are the directions to be exploited, with the purpose of improving the performance of a given activity?

In order to answer these questions, one resorts to regressive models, which help us connect the performance variables (profitableness and the cash flow) with the influencing factors (the rate of the economic growth, the market share, the degree of the vertical integration, the quality of the product and so on).

The Porter method is a classic method for the strategic analyze, enriched with a number of concepts and elements in the industrial economy. M.E. Porter (1992, p. 195) considers that the profitableness of a company does not depend, then partially, on its strategy. The performance of an activity depends, mainly, on the characteristics of the sector the company belongs to, on the strategic group³ and its place, on time. The above mentioned specialist says the state of the rivalry in a specific sector of activity leads to the potential profit of the sector; it is influenced by the following forces: the threatening of entering new opponents, the substitution products pressure in other sectors, the power of negotiations of the buyers and the suppliers. Depending on these forces, the weak and strong points of the company, Porter considers that one can establish three typical strategies which can offer a competition advantage, on a long term, to a company:

- the global domination, through costs;
- the products differentiation;
- the specialization on a strategic segment.

Within the methods of the strategic analysis we must integrate those methods that refer to the determination of the companies market shares.

The methods of evaluation of the companies in the process of becoming LTD-s are grouped into two categories: classical methods and scholar methods. The former, in their turn, are shared depending on the way of approaching a company into: methods of patrimonial evaluation, methods of evaluation through profitableness and combined methods.

4. Paper content

The strategic analysis is characterized by the following aspects:

- it describes existing relations among diverse variables which describe the performance and the specific influencing factors;
- it is realized on domains of strategic activity and products.

³ The strategic group is formed of companies characterized by the same dimensions of the following characteristics: the mark, the specific of the activity, the product quality and others.

The main advantage of using the strategic analyzing methods consists in the integration of the most important aspects of a company: finance and marketing. Their limits consist in the fact they do not indicate through the obtained results, one should be done for improving the performance of the company activity. Here is the role of the forecasting analysis, which operates on probable variables. It differs from the other types of analysis through the time difference between the moment of study and the moment of the development of the economic phenomenon.

The word *diagnosis* comes from the Greek term “diagnostikos”, which is “capable to discern”. Within the Robert dictionary (1993, p. 295), it is defined as “the action of determine a disease after its symptoms”. Larousse dictionary (2010, p. 316), contains the same definition, with the following explanations: “a judgment oriented to a specific state, after which the essential features will be detached”.

Within the economic administration, the diagnosis is effectively a judgment oriented to a situation or a company. J.Y. Eglem and A. Mikol (1991, p. 429), consider that diagnosing a case is to discover and take into consideration the factors which influence the evolution of the company, the strong and weak points, the opportunities and the risks.

The diagnosis can be general that is it can study the company and its environment on the whole; in this case it also needs a financial evaluation. In a current way, the diagnosis can be limited to one function of the company or it can be limited to specific needs.

Any diagnosis begins with a general knowledge of the company and its environment, and then it follows a static analysis of the strong and weak points, a dynamic and strategic analysis of the company potential and risks.

The diagnostic analysis has to follow the discovery of the possible objectives for each and every function of the company. The dynamic analysis of the opportunities and risks stresses the forecasting consequences the company had already taken and the effects the environment changes have on it.

The results of a diagnostic analysis are used for the realizable studies⁴. The diagnostic analysis is also made in special situations: when the company is in a difficult situation and it is under observation.

The financial diagnosis has as a main objective the static, dynamic and comparative study of a company activity. It allows the expert pronounce himself as concern the obtained results, the financial balance, their resources and destination as well as the productivity of the invested capital.

The financial diagnostic is based on the results obtained from the sector diagnoses, the accounting methods and the principles peculiar to the data sector involved.

In order to determine a diagnosis, at the level of a company, there is need for some beforehand operations:

⁴ The objectives of a realizable study are the following: the reorganizing of the companies, according to the market requests, the orientation and dimensioning of the investments, the assimilation of new products, the increasing of the rivalry capacity, the increase of the efficiency of the whole activity.

- the realization of a financial-accounting audit;
- the grouping and reorganizing of the positions within the annual accounts, comprising: the balance sheet, the results account and the balance annex.

The audit, a Latin word, comes from “hearing”; in the financial-accounting way it means the accounts revision, as a rule by independent experts, in order to state an opinion on their regularity and sincerity.

The conclusions of the financial diagnosis are exposed as strong and weak points of the company. There are also evidenced the tendencies for the main aspects of the company activity, taken into consideration for the elaboration and foundation of the microeconomic forecasts.

The establishing of a diagnosis of the company financial situation represents, in the opinion of J.P. Latreite (1993, p. 2), the purpose of the microeconomic financial analysis. The results of the financial analysis and of the financial diagnosis are used to foresee the main economic-financial indicators of the company.

Within the present conditions in our country, the implementation and extension of the area of usage the financial analysis, as a continuation of the economic analysis, is required by a series of factors, such as:

- the operations of restructuring of the companies and the economic branches;
- the development of the financial markets;
- the importance of the financial analysis in the modern management of the company.

In the case of the companies in difficulty, financially speaking, their situation may come worse rapidly, so a laborious diagnostic analysis can be of no sense. Thus, the diagnosis in such a case must be determined rapidly and contain the following steps:

- the analysis of the treasury situation and its evolution foresee on a short term;
- the rapid detection of the principal causes of the situation and the presentation of the means of their elimination;
- the going deeply into the diagnosis, in the case when the company situation seems to be re established;
- the determination of the necessary funds;
- the appreciation of the business value;
- the answering to the question: has the company an economic sense? Does it respond to the real needs of a profitable clientage?

For every exercise, it is calculated the percent of external coverage of the treasury⁵ reported to the Revenue. If the external coverage of the treasury increased more rapidly than the Revenue and if the short term credits were not used to finance the immobilizations; it is very probable that the respective increase should come from an increase of the hidden damages.

⁵ The external coverage of the treasury = The banking coverage of the treasury

- Fiscal or social carry-forwards
- Suppliers carry-forwards
- Other date of payment carry-forwards

In order to detect the main causes of a difficult situation, the analyst will study the characteristics of the activity, the company products and the rivals' policy. He also has to interview a few representative clients, suppliers, rivals, bankers and officials of the syndicates. The purpose of these investigations is to notice the key factors for the success of the analyzed activity.

If the situation is re established, the diagnosis is went deeply and the analyst will examine the potential for development of the company, reflected by the following elements:

1. The products
 - the measure of the products range;
 - the life cycle of the products;
 - the position on the market;
 - the contribution to the company results.
2. The situation of the employed
 - number of working days per year;
 - the productive output reported to the total output;
3. The production process
 - the state of the production equipments;
 - the fixed costs;
 - the variable costs;
 - the profitableness threshold;
 - the typical costs of the sector;
 - the duration of stocks rotation;
4. The rivalry
 - the financial situation;
 - the activity dimension;
 - the strategy;
 - strong and weak points
5. The clients
 - the cyclic or seasonal character of the request;
 - the price elasticity;
 - the market rate expressed quantitatively and as a valour, on products;
 - the repartition of the Revenue on the clients;
 - the geographical repartition of the clientage;
 - the clientage satisfactions and discontents.
6. The suppliers
 - the repartition of the acquisition on the suppliers;
 - the payment terms offered by the suppliers.

Conclusions

The great majority of the companies in difficulty do not have the possibility to obtain new credits, so the new leaders or owners have to bring capital, in order to face the immediate necessities. These finance necessities have to be covered by the permanent capitals – own and borrowed funds, on short terms.

If the reforming of the company seems to be accessible, the company value can be determined after the relation presented below:

The business value = the real value of the active – the redressing cost

If the redressing cost is hard to be calculated, the potential buyer of the company can appreciate the necessary time for redressing the situation. In this case,

The business value = the real value of the active – the deficit in the redressing period

The business value = the real value of the active – the redressing cost

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